EDMONTON

2010 Financial Report to Citizens

City of Edmonton
Alberta, Canada

For the year ended
December 31, 2010

City Council (elected October 18, 2010)

Back row (left to right): Don Iveson, Dave Loken, Amarjeet Sohi, Bryan Anderson

Middle row (left to right): Tony Caterina, Ben Henderson, Mayor Stephen Mandel, Kerry Diotte, Ed Gibbons

Front row (left to right): Linda Sloan, Kim Krushell, Jane Batty, Karen Leibovici

Message from **City Council**

This is an exciting time in our city. Edmonton is alive with energy and boundless opportunity. With a growing and diverse economy, thriving arts community, expansive green space and outstanding municipal services, Edmontonians enjoy an exceptional quality of life.

Our assets and innovations are endless. We continue to be a global leader in recycling and waste management. The City is positioned as a major urban centre of advanced technologies, health care and green energy. Our shifting urban form and growing transportation system are attracting international attention.

Our vision is to continue to build on these strengths to shape Edmonton into a city that is increasingly vibrant, innovative, inclusive and sustainable. It is this vision that guides our decisions, helps us set direction and encourages us to align our priorities.

We have set goals to bring this vision to life. These goals will change the way we live, grow, move and prosper.

As City Council, we know we must still be mindful of the financial realities facing the city. Citizens have entrusted us to ensure every dollar spent provides value. We will look for creative solutions to ensure our financial sustainability while we continue to grow. By increasing and diversifying our revenue sources, we will reduce our reliance on residential property tax to fund our infrastructure and service needs.

We will continue to position Edmonton as an economic powerhouse to maximize our many economic advantages. Our competitive corporate tax rates and highly-skilled and educated workforce attract and support businesses and entrepreneurs. As a portal to the North, a hub for industrial development, a hotbed of research and innovation and a centre for excellence in education, Edmonton's economy will continue to grow and diversify.

This city has come so far and holds so much promise for the future. We on City Council, are proud to have the opportunity to build on our strengths to move forward. Together with our citizens, businesses and community organizations we can realize our potential and work to transform Edmonton and bring our City vision to life.

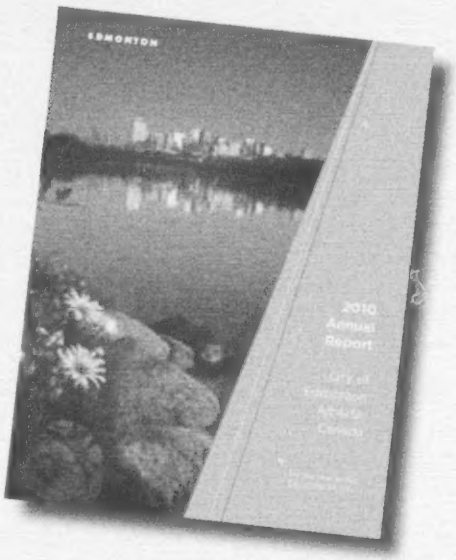
Capitalizing on a wealth of opportunity, Edmonton is transforming daily into an urban centre that is realizing its potential. Together, we are building on our strengths – environmental stewardship, community connectedness, lifestyle quality and economic stability – to create an even greater place to call home.

Edmonton staged an impressive turnaround in 2010. In just 18 months, an economy that had shrunk almost 4% due to worldwide recession gained an estimated 3.2% in Gross Domestic Product, recovering lost ground. As the capital of a province with abundant natural resources and a strong knowledge economy, this city has what it takes to meet the challenges posed by a volatile global economy.

2010 **Financial Results**

This report is intended to provide highlights of the 2010 financial reporting. Readers can also access the complete City of Edmonton financial Annual Report for the year ended December 31, 2010 at **www.edmonton.ca/AnnualReport**. Copies are also available at each of the public library locations.

Consolidated financial statements, as audited by the independent firm of KPMG LLP Chartered Accountants, are included in the 2010 City of Edmonton Annual Report.



Operating Results

2010 began with the identification of fiscal challenges arising from a combination of economic conditions, a revenue imbalance and increased debt-servicing costs for committed capital projects. Administration proposed revenue and expense strategies that reduced the overall tax-levy requirement by $50.3 million to prepare an operating budget within the target 3% tax increase, with an additional 2% directed specifically to neighbourhood renewal. More volatile revenues such as investment earnings were redirected from operations to funding capital where fluctuation can be more easily addressed without impacting services.

Expenses were monitored closely throughout the year. The City ended the year with an operating surplus for tax-supported operations of $42.0 million, or 2.5% of budgeted expenses. The surplus resulted primarily from lower winter and summer road maintenance expenses due to weather conditions, reduced debt servicing expenses from the deferral of capital expenditures and therefore reduced related borrowing, personnel savings from hiring controls, and other net variances across programs.

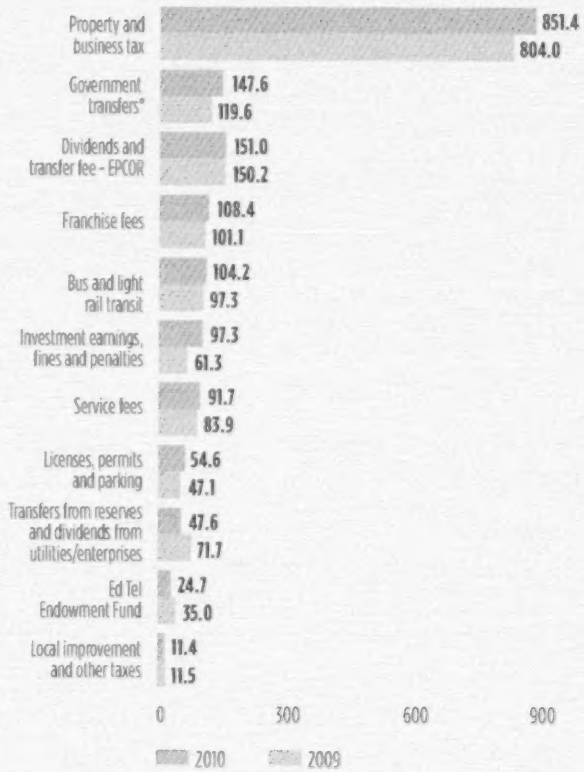
$8 million of the operating surplus will be used to fund services, programs and new projects within the approved 2011 budget. For example, the surplus will fund:

- Family and Community support services for emergency funding
- Design costs for the second floor of the Mill Woods Library Branch
- Additional support for the façade improvement program
- Development of the regional economic strategy
- Additional tree pruning and watering
- Glass replacement at Citadel Theatre
- Churchill Square programming
- Support for the World Hockey Championships, the Heavy Oil Congress, Edmonton Salutes, and Creative Age Festival Arts Council.

A further $6.6 million will be allocated to fund approved expenses budgeted but unable to be completed in 2010, including support for the Jerry Forbes Centre - Santa's Anonymous and the South Edmonton Multicultural Centre. An amount of $1.8 million will be applied to fund the City sponsorship of the 2011 Edmonton Indy. The net remaining surplus of $25.6 million will be added to the Financial Stabilization Reserve (FSR), which is available to address emerging needs and to provide flexibility in times of revenue instability. The addition to the FSR will result in a balance

Where the money to run the City comes from

(millions of $)



*Government transfers include transfers in lieu of tax.

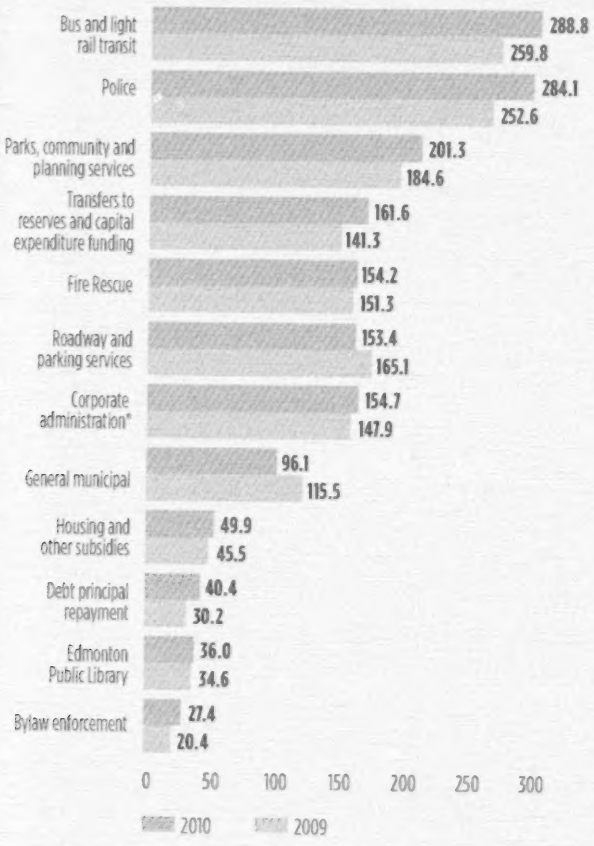
Your Priorities

Edmontonians have said that some of their top priorities are to continue to increase the density of the city through long-term planning, ensure that the transportation system emphasizes the convenience of users and the uniqueness of Edmonton's climate, to apply environmental and economic sustainability as the basis for policy decisions aimed at liveability, and to use proactive and preventative methods to reduce crime and increase safety.

close to the target level of 1 month of expenditures established within City policy.

The Schedule of Municipal Operations on page 7 outlines the 2010 revenues and expenditures for the City's tax-supported programs and services on a basis consistent with the approved 2010 budget. Summarized information on utility and subsidiary operations is included in the Other Financial Information table.

Services supported
(millions of $)



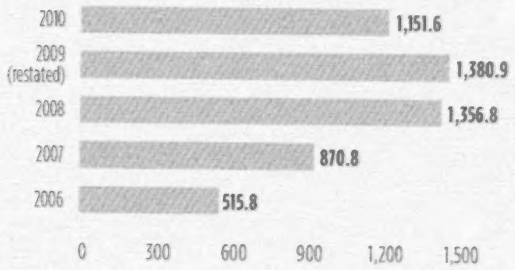
*Corporate administration includes cost of City Council and Mayor's office

Capital Results

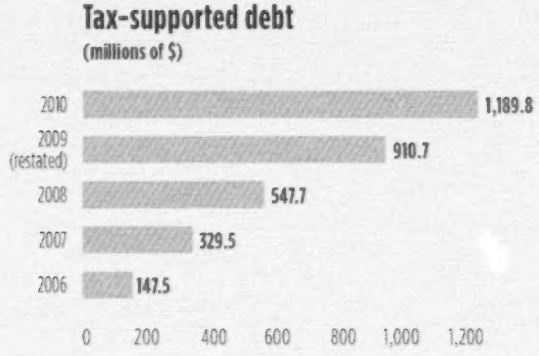
2010 was the second year of the three year 2009 - 2011 approved Capital Budget. Capital expenditures of $1,151.6 million proceeded against a $1,419.7 million budget to address priority infrastructure growth and renewal needs and to help serve a growing population. Significant projects to note included:

- Completion of the South LRT, which opened in April 2010;
- Construction of the Whitemud/Quesnell Bridge and the 23rd Avenue/Gateway Boulevard interchange;
- Construction of the Terwillegar Community Recreation Centre and other multi-purpose recreation centres;
- Upgrades and construction of drainage infrastructure, including flood prevention and mature neighborhood rehabilitation;
- Land acquisition and construction on the North LRT;
- Improvements to arterial roads and networks, primary highways, and bridge rehabilitation;
- Construction of Anthony Henday Drive Ring Road connectors; and
- City fleet vehicle and equipment replacements.

Capital additions
(millions of $)



Some capital projects did not proceed to the extent planned due to delays caused by weather, land acquisition, resourcing constraints, coordination challenges with partners, and deferrals and uncertainty around grant funding. These projects will continue into 2011.



Capital expenditures are being financed primarily through grants from other orders of government, tax-supported or self-liquidating debt, and developer/partner financing. The City also continues to fund a significant level (2010 - $127.4 million) of capital on a pay-as-you-go basis from operating revenues.

The City borrowed an additional $396.8 million in 2010, of which $315.8 million is tax-supported debt and $81.0 million is self-liquidating debt, financed by utility rates or other direct charges. The Province announced in 2010 that a portion of their grants would be deferred to future years. To take advantage of reduced project costs, accessible resources and low interest rates, the City continued to push forward on grant approved capital projects. Short-term debt is being used to manage the cash flows, with the debt principal to be paid from future grant monies. Although debt levels have increased along with the associated debt servicing costs, the City carries levels of debt and incurs debt servicing costs well below the limits legislated for municipalities.

Summary

The City of Edmonton continues to benefit from one of the strongest economic growth outlooks in the country. Standard & Poors and DBRS each confirmed their strong ratings for the City in 2010, AA+/Stable and AA(high) respectively.

The directional plans (The Ways) for the City are ambitious and exciting, including new LRT expansion, downtown revitalization, redevelopment of the City Centre airport lands, bridge construction and neighbourhood renewal. The City will continue to be challenged to manage emerging or competing financing needs as the major centre for the capital region, and to maintain existing services while addressing the service and infrastructure needs associated with internal growth. The City's long term financial plan, The Way We Finance, will support guiding principles to ensure sound fiscal management and long-term financial sustainability.

Few economies have prospects as bright as Edmonton, at the geographic core of Canada's economic future. As the research and industrial powerhouse of the province, Edmonton stands tall as one of Canada's most dynamic and prosperous urban centers.

Schedule of Municipal Operations (Unaudited - Note 1)

For the year ended December 31, 2010 (in thousands of dollars)

Revenues	Budget 2010	Actual 2010
Taxation:		
Property and business taxes	$ 862,513	$ 851,434
Government transfers in lieu of tax	23,361	34,244
Local improvements	9,581	8,584
Other	1,600	2,786
	897,055	897,048
Government transfers	119,663	113,392
Franchise fees	105,909	108,382
Bus and light rail transit	109,226	104,232
General municipal services and other	85,509	91,662
Fines and penalties	53,499	50,883
Investment earnings	23,674	46,386
Licenses and permits	35,524	40,011
Ed Tel Endowment Fund contribution	24,698	24,698
Parking	15,043	14,571
Municipal revenues before transfers and dividends	**1,469,800**	**1,491,265**
Dividends from EPCOR Utilities Inc.	138,398	135,786
Transfer from reserves	53,233	41,478
Gold Bar Wastewater Treatment Facility transfer fee from EPCOR Utilities Inc.	15,250	15,250
Dividends from other Utilities and Enterprises	6,585	6,095
Total Municipal Revenues	**$ 1,683,266**	**$ 1,689,874**

Expenditures	Budget 2010	Actual 2010
Bus and light rail transit	$ 294,886	$ 288,802
Police	293,875	284,091
Fire rescue	155,183	154,200
Roadway and parking services	168,187	153,438
Corporate administration (Note 2)	152,527	150,449
Parks and recreation	131,728	120,936
General municipal (Note 3)	110,901	96,137
Housing and other subsidies (Note 4)	65,532	49,926
Community and family	45,498	46,169
Edmonton Public Library	36,033	36,033
Planning services	41,373	34,163
Bylaw enforcement	26,550	27,390
City Council and Mayor's Office	4,475	4,190
Municipal expenditures before transfers and debt principal repayments	**1,526,748**	**1,445,924**
Capital expenditure funding (Note 5)	101,800	127,405
Debt principal repayment	37,473	40,422
Transfer to reserves	17,245	34,152
Total Municipal Expenditures	**1,683,266**	**1,647,903**
Excess of revenues over expenditures	**$ -**	**$ 41,971**

Notes to Schedule of Municipal Operations:

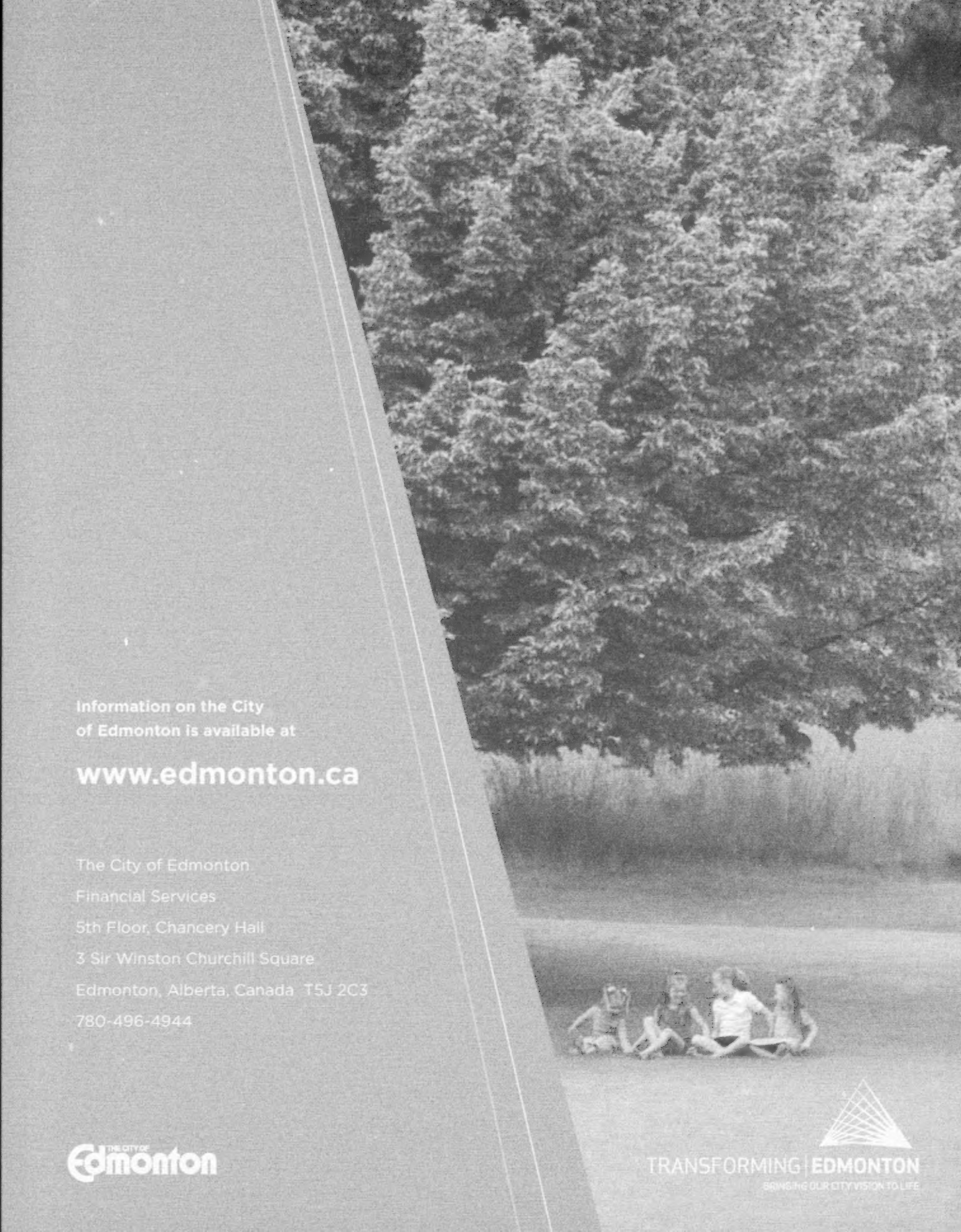
1. This summary has been prepared on a basis consistent with budget for tax-supported operations which excludes amortization and includes transfers to and from reserves, capital expenditure funding and debt principal repayment. These results exclude certain adjustments required upon consolidation, consistent with the Canadian public sector accounting standards as established by the Public Sector Accounting Board.
2. Corporate administration consists of personnel and administrative costs for Assessment and Taxation, Corporate Services, Finance and Treasury, Offices of the City Manager, Deputy City Manager and City Auditor.
3. General municipal consists of accommodation expenditures, indirect administrative costs for capital project management, risk management expenditures, general financial costs and tax appeals / allowances.
4. Includes subsidies paid to support public housing and certain Boards, Authorities and organizations.
5. Capital expenditure funding represents pay-as-you-go and neighbourhood renewal funding from municipal taxation and other revenues to fund capital projects.

Other Financial Information

For the year ended December 31, 2010 (in thousands of dollars)

	Revenues	Expenses	Net income (loss)	Contribution to municipal operations
EPCOR Utilities Inc.	$ 1,560,917	$ 1,427,962	$ 132,955	$ 191,719
Ed Tel Endowment Fund (unaudited)	47,205	2,326	44,879	24,698
Sanitary Drainage Services (unaudited)	80,960	72,262	8,698	10,289
Land Drainage Services (unaudited)	26,915	17,675	9,240	
Waste Management (unaudited)	117,735	126,235	(8,500)	
Edmonton Economic Development Corporation	35,180	34,429	751	
Edmonton Public Library Board	43,964	44,405	(441)	
Edmonton Non-Profit Housing Corporation	7,724	6,438	1,286	

The financial results provided above are consistent with those reported in the annual financial statements for the respective organizations or operations. The contribution to municipal operations reflects the amount, excluding taxation, included in the Schedule of Municipal Operations. Edmonton Economic Development Corporation revenues include $12,705 of tax levy funding. Edmonton Public Library Board revenues include $36,033 of tax levy funding.



Information on the City of Edmonton is available at

www.edmonton.ca

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THE CITY OF Edmonton

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BRINGING OUR CITY VISION TO LIFE